CHAPTER I

NET ADVANTAGES OF INTERNATIONAL TRADE

The advantages which accrue to a country from participation in International Exchange of goods are similar to those which result from division of labour within a country. These advantages may be summed up as "increase of utility", that is, with a given amount of effort a nation gains a larger satisfaction by means of International trade than it would get in the absence of such trade. The advantages may be thus enumerated:

1) Goods become of commercial value which would have been left unutilized but for foreign demand. e.g. Nitre in Chile; rubber in the tropics.

2) Through International trade there is both continuity of demand and continuity of supply, so that price fluctuations are limited to a narrow range. Famine and scarcity are also mitigated.

3) The concentration of a special branch of production in one region leads to further gains because the law of increasing returns comes into operation.

4) International trade acts as a check to monopolies and trusts just as it leads to the creation of new markets for home produce.

5) It enables a country to obtain articles which cannot be produced within the country. e.g. tea and coffee for England, coal for Switzerland and spices for United States.

6) Each commodity is produced in that country which possesses superior facilities. e.g. Coal and iron in England, wine and silks in France. In other words International trade enables a country to get by importation commodities which could be produced at home only at a greater cost. The productive force of each community is set free for the application to those natural agents and materials which offer the best chance of high returns so that the efficiency of each productive unit is much increased. Says Marshall, "It is tacitly assumed that the country in question would make for itself those things which she now imports and accordingly the gains from her trade may be taken to be the excess of the cost to which she would be put if she made her imports herself over that to which she is actually put by making her exports and exchanging them for her imports."

The advantages have to be weighed against disadvantages. Then only we can say whether a country is really a gainer by participating in International trade. The disadvantages may be thus summed up:

1) How is the gain distributed? Though there is an addition to the volume of production as the result of international co-operation the whole or the greater part of this

surplus may be absorbed by one or other of these participating countries leaving the rest in no better position than before. J.S. Mill says, "Countries which carry on this trade on the most advantageous terms are those whose commodities are most in demand by foreign countries, and which have themselves the least demand for foreign commodities".

2) International trade may lead to a one-sided development leading in the case of agricultural countries to an unstable economic life and in the case of industrial countries to over-urbanization and consequent evils.

3) There may also be disorganization of a country's economic life. Thus the demand for the exported goods might cease; the facilities for their production might disappear or excessive specialization may on the one hand increase the chance of over-production and on the other bring about the exhaustion of natural resources.

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International Trade as a test of National Prosperity

Volume a fairly good test of a country's prosperity. But volume not an accurate index. Prosperity not to be judged by quantity of external trade. We must go behind 'imports + exports' & judge each item.

We must especially consider that

(1) Mere size of trade a quantitative measure & not a reliable test — Eg. A country may have a large import trade which no doubt adds to its earnings but does not form part of her foreign trade. Thus trade figures of Belgium & Holland somewhat swollen because they are ports & outlets for German trade.

(2). Size of economic unit affects volume of trade. England a small country depends on foreign supplies while U.S.A. a large country depends largely on home supplies. Yet both are equally prosperous in spite of this disparity of foreign trade.

As culture advances, ~~products~~ ~~wages~~ productive agency of a country may be devoted to producing services that do not enter into statistics of foreign trade eg. Shipping & banking services of England.

(3). Mere excess of "exports" over "imports" in one year or a trade balance favourable or unfavourable is not a good test as it is argued to indicate whether a country is prosperous or the reverse. England & India —

Impact of capital. How profits will be used for the country's benefit.

(3). Nature of goods imported & exported — Harmful goods like alcohol & opium imported. F.T. may over emphasize agricultural aspect & overlook industrial aspect & vice versa.

(4). Foreign trade in relation to political life — If a country works for maximum benefit through F.T. it may neglect national defence in order to — eg. England in time of war became dependent on Germany for chemicals & Japan for food.

To what extent is exchange (international) goods enduring? Exchange takes place (a) differences in natural resources — more or less permanent differences & involves trade based on these differences (b) differences in industrial qualities & abilities — Latter not permanent — & new trade based on these differences is less important formerly.